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# Inherited organisational performance? The perceptions of generation Y on the influence of leadership styles

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### **Abstract**

Leadership has a major impact on organizational performance (Agle et al., 2006; Felfe and Schyns, 2004; Peterson et al., 2003). However, results are still conflicting regarding these effects and research has yet to focus on the expectations and perceived impact from the point of view of young professionals (the future senior employees and managers). Following this, this study has focused particularly on the role of leadership styles and their impact on performance focusing on a sample of 177 young professionals in Germany. A quantitative research strategy was implemented by using a self-completion online questionnaire and the data was analysed using multivariate statistical analysis to demonstrate the impact of each leadership style on organizational performance. The Multifactor Leadership Questionnaire (Avolio and Bass, 1995) was used to measure leadership styles (passive/avoidant, transactional and transformational leadership) and organizational performance was measured based on the Balanced Scorecard performance dimensions (financial, learning and growth, customer orientation and organizational effectiveness) (Kaplan and Norton, 2005). Main findings supported the literature suggesting a statistically significant positive impact of both transactional and transformational leadership on organizational performance. Conversely, the relationship between the passive/avoidant leadership style and organizational performance was statistically significant but negative. This suggests that leaders in organisations driven by German culture should reconsider their approaches and practices.

**Keywords:** Leadership styles, organisational performance, generation Y, organisational size, multivariate analysis.

## **1. Introduction**

Rapidly changing and more competitive environments have increased the significance of developing competitive advantage through leadership to improve organisational effectiveness (Jaramilo et al., 2005). Rather than financial efficiency, companies focus on leadership and intangible resources to sustain their competitive advantages (Wang et al., 2010). Leadership is one of the most explored concepts in business and industry during the last decades and it is defined not only by leaders' actual behaviours but also by the perception of this behaviour (Tourish, 2014). It has become an essential element for organizations (Schein, 2010; Bryman, 2007; Brymer and Gray, 2006). As such, the impact of leadership styles on organisational performance is well documented and research has shown that different leadership styles would generate different outcomes (Ogbanna and Harris, 2000). Therefore, leadership styles not only have generally an influence on the employees' performance but also on the organizational performance in particular (Windsor, 2009; Wang et al., 2010). Lost sales or market share, staff turnover and, in the worst case scenarios, bankruptcy, are the typical outcomes associated with leaders and leadership styles, steering practitioners towards the use of effective or ineffective leaders terminology. Unfortunately sometimes organizations do not recognize the difference between being an effective or an ineffective leader until it is too late.

After doing a review of the literature on leadership and performance topics it became clear that most studies focused on overall performance in terms of financial achievement (privileging financial measures) and using managers as respondents in their samples (Peterson et al., 2003; Huang, 2015). Thus, there is a gap in the literature referring to how leadership is perceived and how leadership styles influence performance from the perspective of young professionals (Ladkin, 2013). Thus, various studies showed conflicting results suggesting that further research is needed to clarify the role of leadership styles on organisational performance from this perspective (Koech and Namusonge, 2012). To address these gaps, the present study has

focused on the responses from young German professionals who represent future organizational success. Consequently, it is of major importance to know how these groups assess the leadership style of their leaders and how this has an influence on organizational performance.

## **2. Literature Review**

### **2.1 Leadership styles**

Leadership has been defined taking into consideration various theoretical approaches (Block 2003; Kouzes and Posner, 2007). For example, Yammarino and Dubinsky (1994) defined leadership as the influence of people for performing tasks by using mainly motivational methods. According to Boseman (2008) and Toor and Ofori (2009), leadership is the ability to guide individuals to a specified outcome based on stimulation and satisfaction of personal motives. Mitonga-Monga et al. (2012) stated that leadership is a procedure for influencing others commitment by identifying their full potential for reaching objectives. Although slightly different, all these definitions of leadership share a common element acknowledging that organizations and their workforce are influenced by leaders (Bohn and Grafton 2002). In addition to this, it is also commonly accepted that the nature of the leadership style is the crucial factor for the success or failure of any unit, organization or nation (Oladipo et al., 2013).

The historical development of leadership has an extended past and can be classified into five main evolutionary stages that then lead to five main areas of current research interests. Early studies were focused on investigating individual traits associated with leadership. This was referred to as ‘trait’ theories which identified certain personal traits to differentiate between leaders and non-leaders and suggested that leaders were born with some traits rather than trained (Mahoney et al., 1960). Due to issues with validating these traits and the search for types of traits that distinguish leaders from followers, the focus shifted then to the ‘behaviour’

and 'style' of leaders (Likert, 1961). Lewin and Lippitt (1938) for example referred to autocratic, democratic and laissez-faire leaders, describing the types of behaviours common to each style which determined the leader-follower relationship as well as group success, risk-taking, problem-solving strategies, morale and relations. These three leadership styles have usually been distinguished as: 1) autocratic – where the leader exhibits tight control over the group and its activities; 2) democratic – where participation and the majority rules and 3) laissez-faire, where limited leadership activities are present.

The Ohio State University and University of Michigan identified two dimensions related to the consideration behaviour and initiating structure behaviour (Lowe and Gardner, 2000). They concluded that both dimensions were separate elements, but that a leader with dedication in both could achieve higher outcomes (Murphy, 2005). From this point of view, according to Sybil (2000), the success of leaders is dependent on the group tasks as well as how the leader's personality fits the group.

Nevertheless, contradictory findings in behavioural approaches shifted the trend in research towards the style of leading. A critical factor in these theories was the non-observance of situational aspects which characterize the effectiveness of leaders (Mullins, 1999). Therefore, researchers began to emphasize on 'situational' and 'contingency' theories of leadership credited to Fiedler (1967). According to this approach, the ability for leading depends on the present situational factors. The leaders' position power, the task structure as well as the leader-follower relations are crucial factors for the effectiveness of leadership (Fiedler, 1967; 1996). Consequently, leadership is mainly influenced by a given situation and its effectiveness is dependent on the understanding of situational factors as well as the choice of a suitable style to manage different situations (Hersey, Blanchard and Johnson, 2007).

In order to overcome the former drawbacks of the traits, behavioural and contingency situational theories, a new paradigm of leadership has come to the forefront of research called

transactional/transformational theory (Tourish, 2013). This theory was originally suggested by Burns (1978) and later developed by Avolio and Bass (2004). Similar to Lewin and Lippitt (1938), this leadership model distinguishes between three styles of leadership (the passive/avoidant, transactional and transformational leadership) and has attracted wide attention among many scholars such as Avolio et al. (2004), Barbuto (2005), Brymer and Gray (2006). The Multifactor Leadership Questionnaire (MLQ) developed by Avolio and Bass (1995) contains the leadership components to measure these three styles which are widely used in many studies due to their validity, reliability and significance of research findings (Ejere and Abasilim, 2013; Koech and Namusonge, 2012). In line with this, the present study adopted this scale as an appropriate tool to measure leadership styles and their impact on organisational performance as further detailed next.

## **2.2 Organizational performance**

The surge of research in organisational performance has led to various and partly conflicting definitions and theories (Selden and Sowa 2004). For example, Venkartrama and Ramanujam (1986) suggested that the evaluation of organizational performance could be categorized into financial, operational and organizational effectiveness. Kaplan and Norton (2005) argued that organizational performance is determined by the organization's ability to use its resources to predict its future.

Similarly to the array of definitions, there are also several approaches for evaluating organizational performance but only little consensus on a valid set of criteria (Lusthaus et al., 2002). More than defining what performance is, the measurement of the considered performance dimensions will be crucial for an organisations' success. The most commonly used indices for evaluating organizational performance tend to be tangible such as profits, sales

volume or equity turnover. Intangible indicators such as product development and customer satisfaction are less frequently used (Rhodes et al., 2008).

For example, according to Wang (1997), two different layers are of particular importance when considering performance: (1) efficiency, which reflects the input-to-output rate and (2) effectiveness, which represents the degree of objective achievement. Lusthaus et al. (2002) extended this approach and identified four elements for analysing organizational performance: (1) effectiveness, (2) efficiency, (3) ongoing organisational relevance and (4) financial viability. In turn, for Koech and Namusonge (2012) organizational performance was represented by the degree of business objectives achievement in the previous financial year of the organization. Ling and Hong (2010) measured organizational performance only with financial indicators such as Return on Equity (ROE) and Earning per Share (EPS). Ejere and Abasilim (2013) assessed organizational performance based on effort, satisfaction and effectiveness indicators. Alsughayir (2014) assessed performance in comparison to competitors in terms of organizational effectiveness, financial and business performance.

As the financial dimension is ultimately the outcome of all other elements, most academics relied on financial performance as the only measure of organisational performance (Neely, 2007; Neely, Gregory and Platts, 2005; Akyuz and Erkan, 2010). Many authors have criticized this trend of organizations' performance usually being measured based on traditional financial performance indicators such as sales revenue, return on investment and earning power (e.g., Long and Thean, 2011). When evaluating performance, non-financial measurements also have an outstanding importance in particular for the long-term operations of organizations, including product quality and workforce performance. Thus, both financial as well as non-financial/intangible measurements need to be simultaneously considered when evaluating performance (Kaplan and Norton, 2005). Furthermore, according to Wang et al. (2010), performance measurements should cover a wider spectrum of performance measurements such

as customer satisfaction and quality as non-financial indicators because no single performance indicator completely represents all aspects.

Acknowledging this need to go beyond financial indicators, Kaplan and Norton (1996; 2005) suggested the use of the Balanced Scorecard approach (BSC) so that executives were able to track both financial and operational metrics to measure organizational performance. These authors proposed a framework that enables managers to consider four performance parameters to cope with activities such as continuous innovation and improvement which the current competitive environment demands. The BSC tracks all the important indicators of an organizations' strategy that enables managers to get a fast and comprehensive view of the business from four important perspectives. The BSC not only includes financial measures with the results of actions already taken, but also operational measures on customer orientation, organizational effectiveness and learning and growth that are the drivers of future financial performance (Kaplan and Norton, 2005). BSC measures are designed to pull people towards the overall vision by assuming that employees will take the necessary actions to achieve the objectives. Consequently, for the purpose of this paper, organizational performance was measured based on the four Balanced Scorecard (BSC) performance dimensions aforementioned.

### **2.3 Leadership styles and organizational performance**

The nature of the relationship between leadership styles and organizational performance has attained a great deal of research attention over time. Keegan and Den Hartog (2004) argued that leadership has been an important component to influence innovation and performance in the workplace. According to Wang et al. (2010), the performance of an organization is a reflexion of the managers' leadership style. Accordingly, numerous studies, such as Peterson et al. (2003), Felfe and Schyns (2004) or Agle et al. (2006), confirmed that leadership behaviour



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is a determining factor that influences organizational performance, showing statistically significant relationships between both variables.

In addition to this, different leadership styles have also been found to be positively or negatively correlated with organizational performance as detailed next (e.g., Howell and Avolio, 1993; Ogbonna and Harris, 2000; Nazarian and Atkinson, 2014). Howell and Avolio (1993) identified that transformational leaders were seen as more innovative which was positively correlated with improved organizational performance, whereas transactional leadership was negatively correlated with business-unit performance. Ogbonna and Harris (2000) empirically examined the relationship between leadership style and performance mediated by organizational culture. Their study concluded that leadership style was not directly linked to performance but that it was indirectly associated through the mediating effect of organisational culture. In addition, Den Hartog and Koopman (2001) found out that transactional and transformational leadership styles were correlated with employee satisfaction and performance, employee turnover, customer satisfaction and organizational effectiveness.

Elenkov (2002) examined the relationship between leadership styles and organizational performance in Russian companies and revealed that the transformational as well as transactional leadership style was positively related to organizational performance while transformational was over and beyond the impact of transactional leadership. On the other hand, Rejas et al. (2006) found that transformational leadership positive influenced organizational performance, while the impact of transactional and passive/avoidant leadership was negative in Chilean context. Muterera (2012) also found out that transactional as well as transformational leadership styles were positively related to organizational performance in American context while the contribution of transformational was more than of transactional behaviour. Accordingly, Koech and Namusonge (2012) found that transformational leadership was highly positively associated, whereas transactional behaviour was relatively low

associated with organizational performance in state-owned corporations in Kenya. A similar research conducted by Ejere and Abasilim (2013) confirmed these research findings in a Nigerian work context and identified the same results.

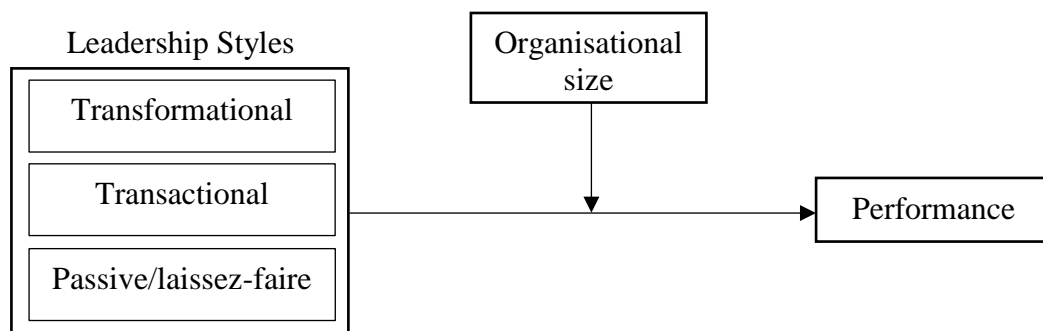
In addition to these findings, the review of the literature found limited empirical studies on the perception of young professional addressing the role of leadership styles on organizational performance. Most of the current academic studies used surveys with managers (Peterson et al., 2003; Koech and Namusonge, 2012; Huang, 2015) which highlights the need to study the evaluation of how leaders act to influence their followers and which impact their leadership style has on the organizational performance from the perception of different sample groups. Understanding young professionals' perceptions is fundamental for today's organizations as these will be the workforce for their future organizational success. This study focuses particularly on young professionals in Germany because German organizations are characterized by a strong hierarchical nature while each worker has its own role clearly defined by detailed job descriptions (Hays plc, 2014). As a result, young professionals are expected to have a clear role and expectations of their leaders and performance.

The British company Hays plc (2014), which offers international recruitment and HR services, conducted a survey about the Generation Y in Germany and their attitudes and expectations regarding the world of work. The Generation Y is defined as young people born between 1983 and 1995. Out of 1,000 respondents more than 60% were either students or in first full time job. 48% of the respondents described their ideal boss as a leader, 43% as a coach/mentor, 39% as a confidant, 24% as an advisor, 23% as a peer, 10% as a friend and 6% see their boss as an allocator of work. This indicates that autonomy is encouraged amongst highly skilled employees in Germany. Furthermore, there is a desire for managers with coaching and mentoring skills as well as for discussing personal matters (Hays plc, 2014). Their research also found that the most important qualities of the workplace leader included fairness

(57%), ability to motivate others (52%), knowledge (47%), supportive (39% and transparency (25%), which all constitute elements of transformational leadership. However, German organizations operate in a highly structured environment, where individuals clearly know what is required to be rewarded and succeed which is a clear indication of transactional leadership.

Also the notion of values-based leadership is in line with this emphasis for building a strong, cohesive culture to create agility and continuity. The Generation Y in Germany also wants motivational leaders who are knowledgeable and expert (Hays plc, 2014).

As a result, based on the literature overview, transformational leadership is therefore expected to have a greater impact on organizational performance when compared to other leadership styles, given that transformational leaders encourage employees to take risk, motivating them to be innovative and achieve both individual and organisational objectives (Waldman et al., 2001). Hence, the following research framework and hypotheses are suggested (see figure 1):



**Figure 1. Suggested research framework.**

**H1:** The transformational leadership style has a positive influence on the overall organizational performance.

**H2:** The transactional leadership style has a positive influence on the overall organizational performance.

**H3:** The passive/avoidant leadership style has a negative impact on the overall organizational performance.

Alongside leadership styles, it is argued that organisational size should also be considered. Organizational size is commonly accepted has a variable that influences effectiveness (Hambrick, 1989; Hambrick and Mason, 1984; Mintzberg, 1973) and performance (e.g., Fombrun and Shanley, 1990; Kumar and Siddharthan, 1994; Chen and MacMillan, 1992). Organisational size is seen as a variable that captures the scope of operations differentiation and increased bureaucratic complexity (Pawar and Eastman, 1997). Thus, positive relationships have been found between organisational size and performance in the majority of studies conducted (e.g., Johnson and Greening, 1999; Muller and Kolk, 2010; Stanwick and Stanwick, 1998). Scholars have argued that leaders have less impact on performance in larger organisations due to the complexity in establishing organisational structure and culture (e.g., Hunt, 1991; Nahavandi and Malekzadeh, 1993; Atwater and Bass, 1994; Koene et al., 2002). Additionally, organisational size as also frequently been used as a moderator on the leadership-performance relationship (e.g., Gibb and Harr, 2007; Bohorquez and Esteves, 2008). For example, Jung et al. (2003) found that organizational size moderates the impact of transformational leadership on firm's innovation. Moreover, different leadership styles have also been considered, for example Pawar and Eastman (1997), Egri and Herman (2000), and Yang et al. (2010) have argued that organizational size has a determinant role on employees' receptiveness to transformational leadership behaviour. As a result it is suggested that:

**H4:** Organisational size moderates the relationship between leadership styles and organizational performance.

### **3. Methodology**

#### **3.1 Participants and procedure**

The present study was conducted using a deductive research approach and linked to a quantitative research design. For this particular study, a single primary data collection technique was applied by using a questionnaire to obtain the data. This research strategy and this method are the most appropriate to investigate (1) the hypotheses suggested and (2) the relationships between variables, given that the interpretation of standardised questions is the same among all respondents (Robson, 2011).

Primary data collection was conducted using a self-completion questionnaire distributed online to reach a wider population and a larger sample size (De Vaus, 2002). A convenience sample of 489 participants was drawn from current dual students and alumni with the support of the Dean of the Business Administration and Engineering from the Cooperative State University in Ravensburg. Although this sampling method might lead to bias, this was appropriate to have access to the population under analysis, as suggested by Bono and McNamara (2011). A total number of 178 questionnaires were received within the period of six weeks. After excluding one invalid response (where the respondent used 3 to answer all questions), 177 responses were valid which represents a response rate of 36 percent (177/489). In their review of response rates in organisational research, Baruch and Holtom (2008) found that for data collected at the individual level (e.g. employees, managers, general population), the average response rate was 52.7 percent, with standard deviation of 20.4. In turn, for the organizational level (i.e. when the respondents are top executives representing the organization) the average response rate was 35.7 percent with a standard deviation of 18.8. Thus, they also found that mail distributed surveys revealed a lower response rate than other forms of data collected. Hence, due to nature of the sample/population under analysis we believe this is an acceptable sample size as we were focusing specifically on German dual students.

### **3.2 Instrument**

The questionnaire was developed based on well-established scales previously explained in the literature overview. The first part of the questionnaire included socio-demographic questions. The second part of the questionnaire included a series of statements about leadership styles. The Multifactor Leadership Questionnaire (MLQ5x) developed by Avolio and Bass (1995, 2004) was adopted. The questionnaire included 36 items measuring transactional, transformational and laissez-faire leadership styles. The last part of the questionnaire included organisational performance items which were adopted from Kaplan and Norton's (1996, 2005) Balanced scorecard (BSC). In total the 11 items suggested by these authors were kept and adopted to measure the four constructs considered comprising (1) overall financial performance, (2) customer orientation, (3) organizational effectiveness to measure internal business processes, and (4) learning and growth. These 11-items were also based on rating questions used to collect opinion data about the achievement of specified organizational objectives and about the extent to which the perceived leadership style impacted on the items of the performance dimensions. As suggested by Podsakoff et al. (2003), common method bias was addressed through careful construction of the items themselves (e.g., eliminate item ambiguity, demand characteristics, social desirability), ensuring validity of the instrument, protecting respondent anonymity and reducing evaluation apprehension.

### **4. Results**

Results regarding descriptive statistics (see Table 1) reveal that in the considered sample the majority of respondents were male with 71.7% ( $n = 127$ ) of valid responses whereas only 28.3% ( $n = 50$ ) were female respondents. The results illustrate that the majority of the respondents were between 22 and 29 years with 85.9% ( $n = 152$ ). Only 9.4% of the respondents were under 22 years ( $n = 17$ ) while the minority of the respondents were 30 years and above

(4.7%,  $n = 8$ ). The large proportion of the respondents had earned a bachelor degree with 44.9% ( $n = 79$ ) whilst 21.3% ( $n = 38$ ) of the sample were currently master students and 18.0% ( $n = 32$ ) had a master degree. Only the minority of the respondents were currently completing their bachelor degree (15.8%,  $n = 28$ ). As such, they can all be classified as young professionals or the German generation Y as previously explained. Additionally, 63.8% ( $n = 113$ ) of the respondents had worked for a large company with 250 and more employees, followed by 24.4% ( $n = 43$ ) with an employment at a medium sized company between 50 and 249 employees and only 7.9% ( $n = 14$ ) of the respondents had worked for a small company with 10 to 49 employees while the minority of the respondents with 3.9% ( $n = 7$ ) were employed at a micro enterprise with a size of 1 to 9 employees.

**Table 1: Descriptive Statistics**

| Variable                 | N   | %    |
|--------------------------|-----|------|
| Gender                   |     |      |
| Male                     | 91  | 71.7 |
| Female                   | 36  | 28.3 |
| Age                      |     |      |
| Under 22                 | 12  | 9.4  |
| 22-29                    | 109 | 85.9 |
| 30 and above             | 6   | 4.7  |
| Education Level          |     |      |
| Current bachelor Student | 20  | 15.7 |
| Bachelor degree          | 57  | 44.9 |
| Current master Student   | 27  | 21.3 |
| Master degree            | 23  | 18.1 |

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Position

|                |    |      |
|----------------|----|------|
| Subordinate    | 73 | 57.5 |
| Junior Manager | 42 | 33.1 |
| Middle Manager | 10 | 7.8  |
| Senior Manager | 2  | 1.6  |

## Respondents' company size

|                        |    |      |
|------------------------|----|------|
| Micro enterprise (1-9) | 5  | 3.9  |
| Small (10-49)          | 10 | 7.9  |
| Medium (50-249)        | 31 | 24.4 |
| Large (250 and over)   | 81 | 63.8 |

## Years of service

|  |    |      |
|--|----|------|
| Less than 1 year                         | 32 | 25.2 |
| More than 1 year, but less than 3 years  | 57 | 44.9 |
| More than 3 years, but less than 5 years | 27 | 21.2 |
| 5 years and above                        | 11 | 8.7  |

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Data indicates that 57.5% (n = 102) worked as subordinates, followed by junior manager positions (33.1%, n = 58) and middle managers (7.8%, n = 14), while very few have worked as senior managers with (1.6%, n = 3). The results also show that 44.9% (n = 79) of respondents had worked for their current company for more than one year, but less than three years, followed by people that worked for less than one year and more than three years (25.2%, n = 45), while 21.2% (n = 38) had worked for less than five years. Only 8.7% (n = 15) had worked five years and above for their current company.

In order to better understand the differences between German context and other countries, Table 2 compares the results of this study in terms of all three leadership styles with average



means for European studies based on Avolio and Bass (2004) study and their findings. By comparing this study with the results from Avolio and Bass (2004) study in Europe, it is clear that the average mean for the 3 leadership styles in the present study were significantly higher than the European mean scores.

**Table 2. Comparison of the study mean scores to the Europe normative scores (Source: Mind Garden; Avolio and Bass, 2004).**

|                              | <b>Transformational</b>         |                                 |                                     |                                     |                                     | <b>Transactional</b>         |   | <b>Laissez-faire</b>                                 |                           |
|------------------------------|---------------------------------|---------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|------------------------------|---|--|---------------------------|
|                              | Idealised<br>Attributes<br>(IA) | Idealised<br>Behaviours<br>(IB) | Inspirational<br>Motivation<br>(IM) | Intellectual<br>Stimulation<br>(IS) | Individual<br>Consideration<br>(IC) | Contingent<br>Reward<br>(CR) | Management<br>by<br>Expectation<br>Active<br>(MBEA) | Management<br>by<br>Expectation<br>Passive<br>(MBEP) | Laissez-<br>Faire<br>(LF) |
| <b>Mean (Europe)</b>         | 2.77                            | 2.73                            | 2.68                                | 2.74                                | 2.75                                | 2.90                         | 2.31  | 1.16   | 0.85                      |
| <b>Mean<br/>(This study)</b> | 3.4528                          | 3.2874                          | 3.2874                              | 3.3130                              | 3.3780                              | 3.4232                       | 3.3198  | 2.4665   | 2.2933                    |

In order to test the hypotheses proposed in this study, correlation and regression analysis were used (through SPSS 20). These are typical analyses with this type of data in this field of research (e.g. Ogbonna and Harris, 2000; Nazarian and Atkinson, 2014; Chang et al., 2012). Table 3 shows descriptive statistics, the correlation and internal consistency of the constructs investigated. The results indicate that all items used in this study are reliable and above the recommended range Cronbach's Alpha  $> .60$  (Hair et al., 2010). Furthermore, Table 3 shows that there is a statistically significant positive correlation between the transformational leadership style and organizational performance ( $r = .553, p < .01$ ) and transactional leadership and organisational performance ( $r = .367, p < .01$ ). By contrast, there was a statistically significant negative correlation between the passive/avoidant leadership style and organizational performance ( $r = -.526, p < .01$ ).

**Table 3. Mean, standard deviation, reliability and correlation analysis.**

| <b>Construct</b>        | <b>Dimensions</b>  | <b>number of items</b> | <b>M</b> | <b>SD</b> | <b>Reliability</b> | <b>PAL</b> | <b>TRAL</b> | <b>TRFL</b> | <b>OP</b> |
|-------------------------|--|------------------------|----------|-----------|--------------------|------------|-------------|-------------|-----------|
| Passive (PAL)           | Management-by-Exception (MBEP)<br>Laissez-faire (LF)<br>Passive  | 8                      | 2.3799   | 0.55656   | 0.804              | 1          |             |             |           |
| Transactional (TRAL)    | Contingent Reward (CR)<br>Management-by-Exception (MBEA)<br>Active   | 8                      | 3.2815   | 0.58997   | 0.609              | -.269**    | 1           |             |           |
| Transformational (TRFL) | Idealized Influence (IIA)<br>Idealized Influence Behaviour (IIB)<br>Inspirational Motivation (IM)<br>Intellectual Stimulation (IS) | 20                     | 3.3913   | 0.77206   | 0.888              | -.447**    | .671**      | 1           |           |

| Construct                       | Dimensions   | number<br>of items | M      | SD      | Reliability | PAL     | TRAL   | TRFL   | OP |
|---------------------------------|--|--------------------|--------|---------|-------------|---------|--------|--------|----|
|                                 | Individual Consideration (IC)  |                    |        |         |             |         |        |        |    |
| Organisational performance (OP) | financial (FT),<br>customer orientation (CO),<br>organisational effectiveness (OE)<br>learning and growth (LG) | 11                 | 3.4531 | 0.57003 | 0.844       | -.434** | .367** | .553** | 1  |

\*\*. Correlation is significant at the 0.01 level (2-tailed).

In order to test the suggested research framework and hypotheses (see figure 1), multiple regression analyses were conducted using SPSS 20. The results of these analyses are summarized in Table 4 and indicate that there is a statically significant negative relationship between passive/avoidant leadership style and organizational performance ( $\beta = -.434$ ,  $p < .001$ ). Also the results indicate that there is a statically significant positive relationship between transactional leadership and organisational performance ( $\beta = .367$ ,  $p < .001$ ) as well as transformational and organisational performance ( $\beta = .553$ ,  $p < .001$ ).

**Table 4. Regression Results for relationship between leadership style and organisational performance.**

| <i>Variable</i> | <i>R<sup>2</sup></i> | <i>F-Statistics</i> | <i><math>\beta</math></i> | <i>Sig.</i> | <i>Decision</i> |
|-----------------|----------------------|---------------------|---------------------------|-------------|-----------------|
| <b>TRFL</b>     | .306                 | 77.047              | .553                      | .000        | H1 Supported    |
| <b>TRAL</b>     | .134                 | 27.184              | .367                      | .000        | H2 Supported    |
| <b>PAL</b>      | .189                 | 40.703              | -.434                     | .000        | H3 Supported    |

Dependent Variable: Organisational Performance \* $p < 0.05$ , \*\* $p < 0.00$

To test the relationship between Leadership styles and organisational performance moderated by organisational size, hierarchical regression was used (Tabachnick and Fidell, 2007). The results in Table 5 demonstrate that the relationship between passive, transactional and transformational with organisational performance is significantly

moderated by organisational size. Passive leadership shows positive influence whereas for both transactional and transformational show a negative influence.

**Table 5 Moderation effect of organisational size on the relationship between organisational culture and organisational effectiveness.**

| <i>Variable</i>             | <i>Model 1</i> | <i>Model 2</i> | <i>Model 3</i> |
|-----------------------------|----------------|----------------|----------------|
| <b>Contact</b>              | 2.285**        | 2.172**        | .083           |
| <b>PAL</b>                  | -.434**        | -.441**        | -1.150**       |
| <b>Org. size</b>            |                | -.085*         | -.104          |
| <b>PAL x Org. size</b>      |                |                | .732**         |
| <b>R-Sq</b>                 | .189           | .196           | .232           |
| <b>R<sup>2</sup> Change</b> |                | .007           | .036           |
| <b>F-Statistics</b>         |                | 21.186**       | 17.443**       |
| <b>Contact</b>              | 2.36**         | 2.214**        | .376**         |
| <b>TRAL</b>                 | .367           | .366**         | 1.124**        |
| <b>Org. size</b>            |                | -.041          | -.032          |
| <b>TRAL x Org. size</b>     |                |                | -.769*         |
| <b>R-Sq</b>                 | .134           | .136           | .153           |
| <b>R<sup>2</sup> Change</b> |                | .002*          | .017           |
| <b>F-Statistics</b>         |                | 13.709**       | 10.396**       |
| <b>Contact</b>              | 2.37**         | 2.23**         | .008           |
| <b>TRFL</b>                 | .553**         | .556**         | 1.115**        |
| <b>Org. size</b>            |                | .022*          | .035           |
| <b>TRFL x Org. size</b>     |                |                | -.571*         |
| <b>R-Sq</b>                 | .306           | .306           | .321           |
| <b>R<sup>2</sup> Change</b> |                | .000           | .015           |
| <b>F-Statistics</b>         |                | 38.391*        | 27.278*        |

Dependent variable: Org, Performance \*p< 0.05; \*\*P< 0.001

In addition to testing the suggested hypotheses we have also looked into the effects of leadership style on the different dimensions of the BSC. Table 6 shows that the

transformational ( $r = .502, p < .01$ ) and transactional ( $r = .386, p < .01$ ) leadership styles have the strongest statistically significant positive influence on organizational effectiveness followed by the financial performance and customer orientation. Both transformational ( $r = .404, p < .01$ ) and transactional ( $r = .224, p < .05$ ) leadership styles have comparably weaker statistically significant positive influence on learning and growth. In contrast, passive/avoidant leadership has a significant negative influence ( $r = -.494, p < .01$ ) on financial performance followed by organizational effectiveness ( $r = -.462, p < .01$ ), customer orientation ( $r = -.349, p < .01$ ), and learning and growth ( $r = -.322, p < .01$ ).

**Table 6. The effect of leadership styles (PAL, TRAL and TRFL) in each of the BSC performance dimensions (FT, CO, OE and LG).**

|             | <b>FT</b> | <b>CO</b> | <b>OE</b> | <b>LG</b> |
|-------------|-----------|-----------|-----------|-----------|
| <b>PAL</b>  | -.494**   | -.349**   | -.462**   | -.332**   |
| <b>TRAL</b> | .304**    | .292**    | .386**    | .224*     |
| <b>TRFL</b> | .440**    | .437**    | .502**    | .404**    |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

## **5. Discussion & Implications**

The empirical findings of this study show that all the mean scores of the leadership dimensions were significantly higher in this study than the European mean scores. A possible reason for this is that the young professionals considered in this study were highly skilled employees with academic degrees. This supports Windsor (2009) argument



in which he stated that employees from successful organizations with a higher level of education tend to rate their leaders higher when they perceive the organization as high-potential with strong evidence of participative decision-making, clear goals and mission and positive intercultural climate.

In regards to H1, clear support is provided by our findings to Howell and Avolio (1993) and Rejas et al. (2006) who argued that transformational leadership style has a positive impact on organisational performance.

Similarly, supporting H2, this study is aligned with other studies (such as Muterera, 2012) that showed a positive relationship between transactional and organisational performance. A possible reason for this is that, according to Hays plc (2014), autonomy is of particular importance amongst highly-skilled employees in Germany rather than leaders as allocator of work.

Although in the literature passive/laissez-faire leadership style has not been fully supported as an actual leadership style (for example Ejere and Abasilim, 2013 who argued that it has no relationship whatsoever with performance), this study is line with Rejas et al. (2006) who have showed that laissez-faire style has a negative impact on organisational performance (supporting H3).

An important contribution of these findings refers to the need of actually considering laissez-faire leaders and their potential negative and disrupting impact in an organisation which clearly suggests that further research should be developed in order to clarify the

mixed nature of results associated to this leadership style. Also, leaders should continue to focus on engaging with followers, inspire the followers' enthusiasm and encourage them to rise to the high moral and ethical standards while avoiding the practices of passive/avoidant leadership.

Coaching and mentoring skills as well as the discussion of personal matters are extremely important for the Generation Y in Germany while they also want motivational leaders who are knowledgeable and fair (Hays plc, 2014). Leaders with transformational style are visionary and enthusiastic while having the ability for encouraging and motivating subordinates to develop the follower's capability leading to success (Howell and Avolio, 1993). A transformational leader helps and motivates followers to perform beyond expectations while putting their own self-interest in the background to concentrate on organizational goals (Bass and Riggio, 2006). On the other hand, laissez-faire leaders do not provide any empowerment or clear guidance on how to achieve desired outcomes, therefore generating negative results in a German driven context.

In addition to this, the findings of this study are also supported by Elenkov (2002), Koech and Namusonge (2012) and Waldman et al. (2001) showing that the transformational leadership style has a greater impact than transactional leadership style on organisational performance. This means that leaders that adopt transformational leadership styles have the potential of achieving both individual and organisational objectives to a greater extent than leaders that choose the transactional approach.

Finally, in regards to H4, results showed a clear moderating effect of organisational size on the relationship between leadership styles and organisational performance supporting previous research conducted by Jung et al. (2003), Pawar and Eastmean (1997), Egri and Herman (2000) and Yang et al. (2010).

The potential consequence of this study could be that organisations with German culture should adopt both transactional and leadership styles as opposed to laissez-faire, since being passive in this culture is not an acceptable trait. Leaders should use transactional leadership for the satisfaction of followers' lower-order needs and the practices of transformational leadership for motivating followers and developing them to their whole potential to accomplish higher-order objectives. Empirical evidence of this view is given by many leadership researchers such as Bono and Judge (2004), Hayashi and Ewert (2006) and Brymer and Gray (2006).

With respect to the management and leadership literature, this study has made an important contribution as it provided insight on the degree of impact of each leadership style on the four BSC performance dimensions. The implication is that organizations may detect leadership areas with significant effects on specific performance measures and identify potential for training and development to improve leadership practices and the overall organizational performance. Consequently, human resource experts are able to align their training and development activities and to derive the leadership style or the attributes with the most positive or negative impact on specified organizational measures.

Given that transformational as well as transactional leadership are significant predictors of improved organizational performance, perhaps the most important implication of this research is that leaders need to apply the patterns of transformational and transactional leadership depending on the situation they encounter, supporting the theoretical background considered in this paper.

Consequently, leaders may consider practising both leadership styles in combination depending on the situation in order to satisfy the low-level needs of followers with transactional leadership as well as motivating the followers with transformational leadership by appealing to their higher needs for developing their fullest potential. Empirical evidence to this implication is given by many leadership researchers such as Bono and Judge (2004) and Hayashi and Ewert (2006).

## **6. Concluding Remarks**

Previous researchers provided limited empirical studies that examined the role of leadership styles on organizational performance from the perspective of young professionals. Moreover, the impact of the leadership styles on the four BSC performance dimensions has also not been investigated.

This study addressed these gaps by focusing on young professionals' perceptions of leadership and performance. This population was chosen given the fact that these are the

future senior employees and managers in organisations in Germany so it is crucial to understand their expectations.

The findings of this study provide leaders in the industry sector with clear guidance on which leadership styles to use with young professionals to achieve optimal performance and competitive advantage for companies in today's globally competitive market. However, these findings are limited to the German context which might suggest the impact of cultural elements in this research.

Following the discussed findings, future research should focus on the implications of adopting the laissez-faire leadership style and its consequences for organisational success and competitiveness. Future research could also consider the cultural differences between young professionals in other countries other than Germany and the impact of these differences on organisational performance. Other variables such as education, job position and years of professional experience could also be explored in the future as intervening variables.

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